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The role of cohesion policy in the transformation of the economy

OPINION

European Economic and Social Committee

The role of EU structural and cohesion policy in driving forward the transformation of the economy in an innovative and smart manner
[exploratory opinion]

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1. **Conclusions and recommendations**

1.1 The EESC calls on the European Commission to address cohesion policy as a fundamental tool for dealing with the huge challenges caused by the coronavirus pandemic. There is an urgent need to respond swiftly, and the financial means to help and support Member States must be deployed in keeping with the relevant criteria, but also with courage. More than ever, Europe needs a differential approach to a single challenge.

1.2 The impact of the coronavirus crisis means there is a need for strong, clear measures to rebuild Europe's economy. The consequences for public health, economic, societal and political action are difficult to measure and the impact will differ from one Member State to another. The EESC agrees that the priorities of the German Presidency must focus on these new circumstances and calls for action to protect employment and social rights across the Union.

1.3 The EESC believes that any recovery plan for Europe must bear in mind the consequences of this crisis, namely Europe's dependence on other economic areas for specific products and services. It is clear that Europe must reflect on its trade policy, boost innovation and turn to good advantage its smart specialisation strategy based on regions and a sectoral industrial approach. The cohesion policy was fundamental in the past for creating the right conditions for industry, R&D and infrastructure to develop solutions. The EESC believes that the needs of the moment require an even stronger policy to support industries to relocate back to Europe. Reindustrialisation is needed and the time to do that is now.

1.4 For the EESC, digitalisation of services must continue to be a priority for all Member States. This crisis has shown the need for simpler, more comprehensive services to support all Europeans, particularly those who require extra support. It is clear to the EESC that there are different perspectives and challenges among Member States regarding digitalisation. Existing infrastructure is inadequate and more investment in these areas must be a priority. Member States should be encouraged to invest in better infrastructure to create the right conditions for new companies and new services. Financial instruments must be creative and simple so as to allow this to happen.

1.5 The EESC agrees that there is still a need to invest in full broadband systems to allow rural areas to develop modern agriculture and tourism activities. Cohesion policy instruments have been neglecting this need, or at least Member States have been distracted from existing opportunities under the financial programmes. To allow the development of a "new form of agriculture", new tourism activities and new "industries", Member States' governments should be encouraged to invest in broadband infrastructure.

1.6 The EESC strongly believes that e-business is fundamental to the "new normal" as a result of COVID-19's impact on society and the economy. It will be necessary to provide different options for both companies and consumers. SMEs can also benefit from this new approach, so structural funds must be allocated to allow companies to discover new markets and new opportunities. The EESC urges the European Commission to be flexible when addressing these challenges, which can provide opportunities for companies to "go online" with partnerships and smart investment to compete not only in the internal market but also world-wide. More sustainable supply chain networks are definitely needed to allow companies and consumers to interact better.

1.7 The EESC believes that there is an urgent need to protect SMEs and their sustainability. Therefore, the usual, existing European tools such as the European Social Fund must be deployed in a very creative but simple way. There is no doubt about the impact of this crisis on employment rates and it will be difficult for Europe to recover without a proper strategy for training and for reintegrating people into the labour market. Also for this reason, the decision-making process relating to the use of financial instruments must address the fact that SMEs still need to deal with a great deal of "red tape" to benefit from these schemes. The EESC calls for action to lighten the load here in order to allow SMEs to go further in this.

1.7.1 It is imperative to ensure favourable long-term credit conditions for SMEs in order to provide them with help in this difficult period, and we should use the Cohesion Fund to create a rapidly-responding, effective financial instrument.

1.7.2 Along the same lines, the EESC would draw attention to the need to boost and create the right conditions for developing public investment in, and mechanisms for, life-long training schemes to allow people to adjust their skills to the needs of the market now and also to prepare to provide future generations with new skills.

1.8 The EESC also agrees that the "Green Deal" programme must be supported and urges the European Commission to provide clarification to Member States as regards, for example, how the EUR 40 billion in the "Just Transition Fund" can be used to "decarbonise" the economy. This is one example of a good idea and concept that should be promoted among Member States, but it is still not very clear how it is to be put into practice.

1.9 The EESC welcomes the "REACT programme", under which EUR 55 billion will be invested to support cohesion policy, but it calls on the European Commission to swiftly inform Member States and provide clarification about the conditions and distribution criteria, bearing in mind the fact that these funds must be allocated by the end of 2022. REACT-EU funding will be distributed among Member States in line with their relative prosperity and the extent of the effects of the current crisis on their economies and societies, including on youth unemployment. However, more precise information is necessary for achieving results. For the moment, it is implementation that needs to be ensured - rather a given amount of finance. Europe needs a flexible, fast and simple programme, entailing easier processes, that can simplify access to finance, irrespective of a company's size, origin or sector if employment and added value is the main issue.

1.10 The EESC suggests that consultation and extensive involvement of civil society organisations in the definition of regional policies must be ensured in order to benefit from the genuine and relevant knowledge that stakeholders have, which could therefore boost strategy implementation. This is the time to involve the social partners in the definition and implementation of policy to assure a partnership approach that can really make a difference.

2. General observations

2.1 The German presidency of the European Union will take place under very specific circumstances and will be a great challenge for the European project. Many of the presidency's goals may be revisited due to the coronavirus situation, which will impact the development of people, businesses and industries and will test Europe's resilience after the pandemic.

2.2 Although priorities may always be changed, some key ideas can remain, despite the situation. Digitalisation, budget risks and a smart and growth economy are challenges that were already in the spotlight.

2.3 Digitalisation will share the limelight with data policy, artificial intelligence and a digital single market. The openness of the internal market must remain guaranteed, an ambition that can be understood in the context of the debate about Europe's recovery plan. The digital internal market will be further developed to improve Europe's competitiveness. The EU is committed to interoperability, standardisation and open source technology.

2.4 The current situation also risks widening economic and social differences, including regional and territorial disparities between and within Member States. Demand shifts and the capacity of the corporate sector to rebound will asymmetrically affect regions and territories within Member States due to their different sectoral specialisation. Services that require direct contact with consumers are expected to suffer, however, notably through reduced turnover and employment in SMEs.

2.5 Reindustrialisation in rural areas

2.5.1 Member States with significant fiscal space can afford to provide more generous and long-lasting support to businesses and households. They will also be better placed to absorb higher government deficits and debt levels, amidst increased urgency in ensuring quality healthcare and lasting social welfare provision for those affected. More generally, Member States will face differences in their ability to finance the investment necessary to restart their economies and to fund the green and digital transitions. These differences could lead to a distortion in the level playing-field of the single market and increased divergence in living standards.

2.6 Jean-Claude Juncker famously said: "There is not enough Europe in this Union. And there is not enough Union in this Union". The current crisis has once again made it clear that when the going gets tough, it is every man for himself. The temporary export bans on some Member States' protected goods, and the border closures we are now experiencing, are very national responses to a global crisis. This must be a cause for concern. Cohesion policy could correct these effects.

3. Cohesion policy as Europe's strength to boost the single market

3.1 The single market is at the heart of the European project. An efficient single market should allow EU citizens to enjoy a wider choice of services and products and better job opportunities. The single market should stimulate trade and competition, which is fundamental to achieving the EU's green and digital transformations. An appropriate and balanced cohesion policy is fundamental to completing the single market.

3.2 Despite the many disparities between Member States, cohesion policy remains a key mechanism for balancing development, creating opportunities and raising standards. It is important to remember that cohesion policy is based on European solidarity and has effects in all the Member States: both those that are beneficiaries of funding and those that are "net contributors".

3.3 It is also important that specific measures be taken in response to a challenge that has different effects in different Member States. More than ever, Europe needs a differential approach to a single challenge. Thus, Member States will need different levels of support, and this is the main advantage of an effective cohesion policy: smart and effective action to address different effects, like those experienced with the COVID-19 crisis.

3.4 The EESC states that a well-coordinated European industrial policy is fundamental, taking into account both the current challenges of the COVID-19 and post-COVID-19 situations and digitalisation and sustainability aspects.

3.4.1 Key industries and sectors must be identified and supported, from human resources to research, resulting in a European industrial policy that protects these strategic sectors from the market and ensures security of supply of key goods such as respirators, masks and other products in a pandemic situation.

3.4.2 Europe must finance activities that meet two criteria: restoring strategic production to make Europe independent, particularly as regards health protection and responses, which provides quality jobs; and focusing on sustainable investment that is socially responsible and environment-friendly. Small and medium-sized enterprises (SMEs), just like large companies and social enterprises, could play a crucial role in restructuring the European production system.

3.5 SMEs and civil society organisations should be at the centre of attention directed at resilience and recovery. Cohesion programmes should be restructured in a much simpler, effective way so that medium and small beneficiaries can really benefit.

3.6 Tourism and culture are two key sectors that have been hit hard by the pandemic. European funds should focus on determining tools for supporting businesses involved in tourism and culture, through innovation, digital transformation and cross-sectoral cooperation.

4. Cohesion policy and post-COVID-19 situation

4.1 The unusual circumstances of the COVID-19 crisis present an enormous test for cohesion policy. More than ever, Member States' recovery plans must reflect the values of territorial cohesion, such as digitalisation, climate change combat and social inclusion. A systematic and strong recovery plan for Europe and all the EU Member States depends crucially on this policy, regardless of a country's size or other characteristics.

4.2 One of the most critical aspects of the recovery strategy is the financial framework for cohesion policy. More than ever, the pandemic has exposed and even exacerbated inequalities between citizens and between Member States. Everybody is equally exposed to the virus, but the specific way citizens, societies and Member States deal with it varies. The weak financial situation ensuing from this crisis will have dramatic effects on specific countries and parts of society, and a European response must take that into account.

4.3 Cooperation will be key to results. It is not time to criticise previous action. Rather, it is time to look at the present and focus on the future, with agreed principal goals that can remain even in these critical circumstances.

4.4 The damage caused by the COVID-19 crisis to the European project and to the world will amplify the damage caused by the UK's withdrawal from the EU. This could mean that when the pandemic is over, differences between EU countries in terms of economic development, social guarantees and levels of prosperity will increase.

4.5 There is no single solution to the crisis, but an appropriate and balanced cohesion policy has been the answer in the past to address differences and create solidarity between all the Member States.

4.6 Europe's recovery should be based on the solidarity principle, but there is still a need to correct past errors. Member States with excessive public debt must be helped to accelerate a sustainable recovery, but this support must combine strong policies with balanced action based on the country-specific recommendations of the European semester. This is the time to act with courage and not the time to think about political dividends at national level.

4.7 The Green Deal remains relevant, and the EESC believes that its main objectives are fundamental to achieving Europe's leadership in many aspects of the global challenge.

4.8 In this context, the EESC warmly welcomes and fully supports the proposals made by the European Commission: the Next Generation EU plan, including REACT-EU, and the overall EU budget for 2021-2027. As REACT-EU continues and extends the crisis response and repair measures of the new cohesion policy, the EESC strongly recommends **eliminating all possible administrative barriers and burdens**, both on national and European public administrations, so that efforts can focus on dealing with problems relating to the epidemic.

4.9 The EESC therefore firmly believes that REACT-EU will mobilise investment and frontload financial support in the crucial first years of recovery by deploying additional resources in the real economy. **Job maintenance, job creation - especially for young people – and investment support for SMEs are crucial** sectors requiring support through additional funding from REACT-EU.

4.10 The post-COVID19 investment priorities need to consider the disproportionate impact the pandemic has had on certain sections of the population, notably older people, people with disabilities, migrants and refugees and the Roma community. Helping these communities regain stability, and ensuring they are not left behind in the recovery from the ensuing crisis, as was the case after Europe's last financial crisis, will be of paramount importance.

5. European semester and country-specific recommendations

5.1 The European Semester still has to face a lot of challenges that – with the current crisis – have become even more important to tackle. Amongst the challenges to address are the lack of ownership of the proposed reforms and more sluggish implementation of country-specific recommendations.

5.2 The involvement of organised civil society in the European Semester is therefore fundamental, as stakeholders' co-ownership of reforms improves the implementation thereof and helps to achieve positive outcomes.

5.3 In this context, the European Semester process will acquire an increasingly important role in monitoring and evaluating the intervention put in place in the "Next Generation EU" framework, and the EESC therefore believes that economic and social partners and civil society organisations should be seen as having an important role in this process.

5.4 Civil society partners, local players and associations, together with the European Parliament, must be involved in all spending decisions regarding the recovery funds, as well as in ex-post verification that money has been well-spent in the interests of the European public. Mandatory involvement is crucial to ensuring that funds will reach projects that will restore the European economy and help it to recover.

6. Effective cohesion policy instruments

6.1 Cohesion policy is a modern, effective and flexible EU investment policy. On one hand, it offers a response to long-term challenges through its multiannual programming. On the other, it can be extremely flexible in crisis-management situations like the current one caused by COVID-19, where swift changes to the policy's implementation system mean that support amounting to EUR 8 billion (as a starting point) will be channelled to the Member States.

6.1.1 Cohesion policy has a significant impact on Member States' economies. GDP in the EU-13 is expected to be around 3% higher at the end of the implementation period, thanks to 2014-2020 cohesion policy intervention. The impact on less developed regions of the EU is also considerable. For instance, by the end of the programming period, GDP in some of the less developed regions of Hungary is expected to be more than 8% higher than it would be without cohesion policy.

6.1.2 Already in the wake of the economic and financial crisis, EU funds have been playing a stabilising role to ensure a higher level of public investment in many policy areas, from large infrastructure projects to SME funding and the training of workers and the unemployed.

6.1.3 In 2021-2027, cohesion policy will continue its support for all regions in all Member States, financing a wide range of investments that will help EU regions to tackle the twin transitions of technological change and climate objectives effectively, including through brand new initiatives like the Just Transition Fund.

6.2 The proposal for future cohesion policy is based on three key principles:

6.2.1 A policy for all regions: Three-quarters of cohesion policy investment focuses on the least developed regions, but provisions remain for regions in industrial transition as well as for the outermost regions of the EU. In addition, cross-border cooperation has been stepped up and the role of cities, metropolitan areas and local initiatives strengthened, with a new priority devoted to bringing "Europe closer to citizens". Despite the overall reduction in the EU's budget, resources should continue to focus on the poorest Member States and regions. In the Commission’s proposal, this focus is even more pronounced than in the current period and the poorest Member States still receive much more than more developed ones. Support does go where it is needed most – 62% of resources for the jobs and growth goal have been earmarked for the less developed regions (in 2014-2020 this share was 52%). Despite budgetary constraints, it has been possible to ensure increased allocations in real terms for the less developed (+8%) and transition regions (+17%), measured against 2018 prices. That is the essence of cohesion policy: putting the solidarity principle into practice.

6.2.2 A more modern policy: Three-quarters of the investment is earmarked for preparing regions for the twin transitions to a digital, modern economy and a climate-neutral, circular economy – the principal challenges our society will face in the decade to come. This necessary focus is conveyed through several measures to improve the quality and impact of investment: for example, setting up "enabling conditions" tailored to the investment, ensuring that the preconditions for success are in place.

6.2.3 A simpler and more dynamic policy: 80 administrative simplifications have been proposed, streamlining the rules on everything from the set-up of programmes to audit and reimbursement procedures, ensuring clear and simple rules for seven EU funds implemented under shared management in a single rulebook. This single rulebook will make life easier for both programme managers and beneficiaries and facilitate synergies among the seven funds and also with other instruments in the EU budget toolbox such as the Common Agricultural Policy, the Horizon Europe innovation programme, the EU instrument for learning mobility (Erasmus+) and LIFE, the programme for environmental and climate action.

6.3 Together with a continuation of administrative capacity building, all this will enable a faster and better start to the new programmes.

6.4 In a nutshell, the new cohesion policy will be more targeted and bring more EU added value, so it is not only a question of size, but also of results.

6.5 At the same time, more effort will be needed from local authorities in terms of increased ownership when implementing EU-funded projects. This means that the level of the national co-financing returns to pre-crisis levels. The decreasing co-financing rate could be seen as a potential trigger for tension in public budgets, but it should also be seen as an opportunity for better projects and a stronger sense of ownership and accountability. The same goes for the already mentioned reinforced thematic focus on key policy objectives, corresponding to European priorities and challenges such as a smart and green Europe.

6.6 One important condition for the above to apply, is for Europe to tackle the lack of effective communication on cohesion policy that all too often surrounds projects funded under that policy. Whilst acknowledging the various communication guidelines in force by the Commission, it is clear to the EESC that these are nowhere near to being enough. Often there is little or no awareness that certain projects have taken place and/or even that the EU in fact provides funding for them. This results in little or no appreciation of cohesion policy.

6.7 The EESC calls on the Commission to continue its efforts to review current publicity obligations and to upgrade them significantly, taking into consideration the modern means of digital communication channels fully incorporated into the digital agenda. A stronger use of best practice projects should be used as practical examples to encourage a greater and more effective uptake of funds.

6.8 The EESC calls on the Commission to develop a strategic communication plan in cooperation with all the partners concerned, including civil society organisations, local players and the public. It is now more necessary than ever for Member States and beneficiaries to ensure there is more effective communication on, and easier access to, best practice.

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The president of the European Economic and Social Committee

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